

## **Pensions CIV Sectoral Joint Committee (PSJC)**

### **25 March 2015**

Minutes of a meeting of the Pensions CIV Sectoral Joint Committee held on Wednesday 25 March 2015 at 3:00pm in the Conference Suite, London Councils, 59½ Southwark Street, London SE1 0AL

#### **Present:**

City of London	Mark Boleat (Chair)
Barking and Dagenham	-
Barnet	Cllr Mark Shooter
Bexley	-
Brent	Cllr Shafique Choudhary
Camden	Cllr Rishi Madlani
Croydon	-
Ealing	-
Enfield	-
Greenwich	-
Hackney	-
Hammersmith and Fulham	Cllr Iain Cassidy
Haringey	-
Harrow	Cllr Bharat Thakker (Deputy)
Hounslow	-
Islington	Cllr Richard Greening
Kensington and Chelsea	-
Kingston Upon Thames	Cllr Eric Humphrey
Lambeth	Cllr Adrian Garden
Lewisham	Cllr Mark Ingleby
Merton	Cllr Imran Uddin
Newham	Cllr Ted Sparrowhawk (Deputy)
Redbridge	Cllr Elaine Norman
Richmond Upon Thames	-
Southwark	Cllr Fiona Colley
Sutton	Cllr Sunita Gordon
Tower Hamlets	Cllr Clare Harrison
Waltham Forest	-
Wandsworth	Cllr Maurice Heaster
City of Westminster	-

#### **Apologies:**

Bexley	Cllr John Waters
Ealing	Cllr Yvonne Johnson
Hackney	Cllr Roger Chapman
Haringey	Cllr Jason Arthur
Harrow	Cllr Keith Ferry
Hounslow	Cllr Mukesh Malhotra
Kensington & Chelsea	Cllr Quentin Marshall
Newham	Cllr Forhad Hussain
Richmond-upon-Thames	Cllr Thomas O'Malley
City of Westminster	Cllr Suhail Rahuja

Officers of London Councils were in attendance as was Mr Ian Williams (Director of London LGPS CIV Ltd)

## **1. Declaration of Interests**

- 1.1. There were no declarations of interest that were of relevance to this meeting.

## **2. Apologies for Absence & Notification of Deputies**

- 2.1. Apologies and deputies are listed above.

## **3. Minutes and Matters Arising from the Meeting held on 25 February 2015**

- 3.1. It was noted that Cllr Harrison's name had been spelt incorrectly on the minutes (attendance list) and agreed that this would be corrected, subject to which the minutes of the PSJC meeting held on the 25 February 2015 were agreed as an accurate record.
- 3.2. It was noted that any further borough contributions to the CIV would be brought before this Sectoral Committee
- 3.3. In respect of item 8; there being no substantive comments to the draft Heads of Terms it was noted that the Programme Director would commission the lawyers to draw up revised Articles of Association and a draft Shareholders Agreement and bring these to a future meeting for agreement/adoption.
- 3.4. It was noted that a paper on voting would be brought to the next meeting for discussion.

### **3(i) Programme Update** (added as an additional item by request of the Chair and unanimous agreement of the Committee)

- 3.5. The Chair invited the Hugh Grover (Programme Director London LGPS CIV) to provide a brief update on the current status and progress of the programme, the following points were noted:
- Work was well underway to prepare the operating company for FCA authorisation, including the drafting of a substantial document forming authorisation application. Current plans were for the application to be submitted by the middle of May 2015.
  - Work had been completed on analysing current borough investments and negotiations were underway with those Investment Managers that had common mandates across more than one borough. It was anticipated that proposals for the fund structure for launch would come to the committee and then to all participating boroughs in the summer.
  - It would be necessary for each borough to convene pension committee (or equivalent) meetings at an appropriate point to align decision making with the FCA process for fund authorisation. The programme team would liaise with colleagues across the boroughs to agree the timing and make the necessary arrangements.
  - In summary, the current programme plan targets company authorisation to be in July 2015 and fund authorisation in September 2015, with significant assets to be under management by end of the year (subject to decisions of

the boroughs). The FCA process required the operator to be authorised first, followed by the fund.

- 3.6. It was agreed that a programme progress update would be added to all future agendas as a standing item.

#### **4. Governance Overview**

- 4.1. The Chair invited Anthony Gaughan (Partner, Deloitte) to introduce this item and give a presentation on the ACS Operator Governance Model:

- Current proposals would lead to the ACS Operator having a number of committees making up its governance structure:

- i. *Board of Directors*; would play a critical role, and each director would be individually approved by the FCA as being fit and proper to perform relevant controlled functions. The Board would be the ultimate decision making body for the Operator.

The Board would be constituted of a balance of 3 Executive Directors (CEO, Chief Operating Officer (COO) and Investment Oversight Director (IOD)) and 3 Non-Executive Directors (NEDs), of which one NED would be the Chair.

Board meetings would convene formally quarterly. The Executive Team would meet formally monthly, with the meetings being minuted, but would undoubtedly meet more frequently for day-to-day operational matters.

Job descriptions for the NEDs were still being considered, but it seemed likely that the Chair would be from a financial background (possibly an ex-borough Treasurer). Of the other two NEDs might be a financial services professional with investment experience and the other might be an operations professional with experience in third party outsourcing and management of outsourced contracts.

- ii. *Investment & Risk Committee*; would be responsible for ensuring that the operator fulfils its obligations in meeting the agreed investment guidelines. The committee would have oversight of investment decision making and will ensure the operator is following the agreed investment strategies.

The committee would be constituted of the CEO, IOD, Chair of the Investment Advisory Committee (borough officer committee) and the appropriate NED.

Formal meetings would be convened monthly with ad-hoc meetings as required.

- iii. *Operational Risk Committee*; would be responsible for the oversight of operational risks arising from the current and proposed activities of the CIV and would be tasked with ensuring that the company is managing operational risks in line with regulatory requirements.

The committee would be constituted of COO, IOD, Compliance Officer and the appropriate NED.

Formal meetings would be convened quarterly with ad-hoc meetings as required.

- iv. *Compliance Oversight Committee*; would be responsible for ensuring the Operator meets its compliance responsibilities for both itself and the fund.

The committee would be constituted of COO, Compliance Officer and the appropriate NED.

Formal meetings would be convened monthly with ad-hoc meetings as required.

- v. *Valuation and Pricing Committee*; would be responsible for ensuring the integrity of the NAV sign-off process and fair valuations of fund assets at the manager level. In conjunction with the Depositary it would have oversight of the NAV creation process carried out by the outsourced provider.

The committee would be constituted of the CEO, COO, IOD, Operations Manager, with NEDs having the right of attendance.

Formal meetings would be convened quarterly with ad-hoc meetings as required.

- vi. *Audit Committee*; would be responsible for appointing and monitoring the external auditor and reviewing the integrity of the financial statements and the financial controls. It would oversee both company and fund audits. This Committee would also review the systems and controls in place for the prevention of fraud and anti-bribery.

The committee would be constituted of the NED Chair, and both other NEDs, with the COO having the right of attendance.

Formal meetings would be convened bi-annually with ad-hoc meetings as required.

4.2. **The Committee** discussed the presentation noting the following points:

- The Chair asked to what extent the committee structure was “set in stone”. He voiced concern that the proposals could result in an unnecessarily complex structure. Mr Gaughan noted that there might be some scope for simplification but that the FCA had stringent requirements for governance and oversight and may not authorise a company where they had concerns about the robustness of the arrangements. The Chair proposed that some of the committees could be merged, especially where the membership was similar.
- Councillor Heaster said that a remuneration committee was missing from the Governance structure.

- Councillor Greening proposed that efforts should be made to try and dilute the “parings” between Executives and NEDs to ensure the ongoing independence of NEDs.
- 4.3. **The Committee** agreed that officers would come back with proposals regarding NEDs, a remuneration committee or requirement to consult the Committee on remuneration. The Programme Director would take legal advice regarding these matters.

## **5. Structuring the Investment Advisory Committee (IAC)**

- 5.1. The Chair invited Hugh Grover to introduce this item.
- 5.2. It was noted that the IAC (previously referred to as the “Investment Committee”) would be made-up of borough officers, who would deal with the technical work associated with overseeing the fund and making recommendations about how it might be developed over time. This work would be used to inform the consideration and decisions of this committee (the PSJC). The report presented a draft set of Terms of Reference for members to consider. Borough treasurers would be invited to comment on the proposals.
- 5.3. **The Committee** discussed the report noting the following points:
- Councillor Ingleby asked whether there could be some elected member involvement in the IAC, and not just officers. It was noted that the IAC was proposed to be made up of officers who would be engaging in detailed technical work that would come to the PSJC for consideration and decision making in a similar way to borough officers informing the deliberations of borough pension committees. The IAC would act as an officer advisory body.
  - For clarity it was confirmed that ultimate ‘decisions’ would always be made by the operator as a regulated body, but that the PSJC would decide how it would like the operator to develop the fund and those decisions would be acted upon other than in circumstances where due diligence or some other technical reason prevented it.
  - The wording on page 15 of the report (“this Committee” etc.) should be looked at again and redrafted if necessary.
  - Councillor Greening proposed that there needed to be member involvement in reviewing the performance of fund managers. He said that a small group needed to be convened to perform this work on behalf of members. A mechanism needed to be in place to be able to do this. It was confirmed that the Technical Sub Group was looking into the issue of Fund Manager review meetings and proposals would be coming to a future meeting of the committee.

## **6. Executive and Non-Executive Director Recruitment**

- 6.1. The Chair invited Hugh Grover to introduce this item.
- 6.2. It was noted that the report informed the Committee about the processes being adopted to appoint permanent executive and non-executive directors to the

Board of the CIV operating company (London LGPS CIV Ltd.) to replace the current interim directors

6.3. **The Committee** noted the contents of the report.

## **7. Any Other Business**

7.1. There was no other business.

The meeting resolved to exclude members of the press and public to consider the Exempt item of the agenda (E1 Exempt section of the minutes on 25 February 2015).

The meeting closed at 16:10pm